Peter Schiff: The Fed Is Losing The Inflation Fight

Description

We saw a big selloff in the gold market last week and the price dropped below $2,000 an ounce. The catalyst for that selloff was tough talk from several Federal Reserve officials and an increasing expectation that the central bank will raise rates again in June. As Peter Schiff explained in his podcast, everybody thinks the Fed is going to win the inflation fight because it is going to be even tougher. In reality, they are talking tougher because they are losing the fight.

On Thursday, Dallas Fed President Lorie Logan said she's concerned that "much too high" inflation is not cooling fast enough to allow the Fed to pause its interest-rate hike campaign in June.

> The data in coming weeks could yet show that it is appropriate to skip a meeting. As of today, though, we aren't there yet."

While the stock market shrugged off the tougher Fed talk, the dollar strengthened, gold fell and the short end of the bond market also sold off.

If the FOMC does raise rates next month, it will push the Fed funds rate to between 5.25 to 5.5%. As Peter pointed out, this would drive rates above the peak of the last cycle back in June 2006.

> **We will be above the interest rate level that precipitated the 2008 financial crisis and Great Recession. Except the difference is today that we have so much more debt than we did back then.** Everybody has a lot more debt — the government, corporations, individuals. So, that level of interest will do far more damage today than it did in 2007. And we know how much damage it did then because we had the financial crisis of 2008. So, **the financial crisis that has already begun in 2023 is going to be much worse than the one that we had in 2008.**"

Household debt is now above $17 trillion for the first time ever. Even more concerning is the fact that credit card debt was flat in Q1. Credit card balances typically fall in the first quarter.

> **Americans are using their credit cards as a lifeline. That's how they're dealing with higher prices. They're charging stuff."**

In March alone, revolving credit, which included credit card debt, was up 17.3% on an annual basis. Meanwhile, interest rates on credit card debt have spiked to over 20%. Peter said this indicates that the Fed really isn't making any progress on inflation.

> The consumer keeps spending. Where are they getting the money? They're borrowing it. Credit continues to expand. That's part of the inflationary dynamic. Inflation is an expansion of the money supply, which includes credit. So, consumers are not cutting back on their spending because of higher prices. They're not even cutting back on their spending because of higher interest rates. **They just keep on spending. So, prices are going to keep on rising, and this next quarter-point rate hike isn't going to be any more effective than the previous rate hikes,** which means they're going to have to do it again."

But Peter said no matter how much they hike, it's not going to matter. That's what the markets fail to understand. Everybody is thinking that since the central bank is going to fight even harder to fight inflation, it's a good sign and the Fed is on course to slay the inflation dragon.

> No. The Fed is losing its fight with inflation. That's why it's going to try harder. But it's going to be ineffective. **If they couldn't beat inflation with 5%, they're not going to beat it with 5.25%**."

It's not just household debt that's a problem. The federal government has a debt problem of its own. Federal revenues have collapsed even as the Biden administration keeps right on spending. And why are tax receipts going down? Because the economy is weakening.

The Leading Economic Indicators were down for the 13th straight month. The last time we had a losing streak this started in 2007 and lasted 20 months.

> I think we're going to break that record. And the most ironic part about it is **the biggest positive indicator in the LEI, and without this, it would have been lower, is the stock market because the stock market is going up**. But I've said this before. The stock market going up is not a sign of a strong economy. It's actually the reverse. The reason the stock market is going up is because investors expect a recession, and they expect the Fed to cut rates at some point due to that recession."

But Peter emphasized that inflation will still be a problem. In fact, it will get even more out of hand as the Fed starts easing to try to prop up the collapsing economy.

In this podcast, Peter also talked about the debt ceiling and his defamation lawsuit.

by Tyler Durden

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Date Created
05/26/2023